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To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: J. Tyler McCauley
Auditor-Controller

Subject: **FISCAL REVIEW OF MARITES GROUP HOME -
A GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our report on the fiscal operations of Marites Group Home (Marites). Marites was licensed to operate five group homes with a resident capacity of 30 children and was located in the Second Supervisorial District. The Department of Children and Family Services (DCFS) referred this Agency to us for audit.

DCFS and the Probation Department contracted with Marites to provide the basic needs and services for the foster care children placed with the Agency. Under the provisions of the contract, DCFS paid Marites a monthly rate of \$4,423 per child, based on a rate classification level determined by the California Department of Social Services (CDSS). In the 12 month period covered by our initial audit, Marites received approximately \$1,449,900 in foster care funds from DCFS.

Scope

The purpose of our review was to ensure that Marites complied with the contract and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures in providing services to children placed in the Agency's care. We also evaluated the adequacy of Marites' accounting records, internal controls and compliance with applicable federal, State and County fiscal guidelines governing the disbursement of group home foster care funds.

Because of the serious nature of the fiscal irregularities and questionable expenditures identified in our audit, we initiated a review of Femmy's Group Home (Femmy's), a related Agency, where we identified a similar pattern of fiscal irregularities. As a result,

our findings were referred to my Special Investigations Unit (SIU) for investigation. The results of our investigation of Femmy's are being addressed in a separate report.

Summary of Findings

Our initial audit, covering the period from January 1, 1997 through December 31, 1997, disclosed serious deficiencies in Marites' controls over the receipt and disbursement of group home funds, including numerous questionable and related party expenditures, incomplete accounting records and lack of supporting documentation. As a result, we initially questioned a total of \$224,684 in expenditures made by Marites.

Of this amount, \$221,536 represents checks that were made payable to cash and were not adequately supported by vendor invoices, receipts, or other appropriate documentation in accordance with applicable regulations. According to Agency management, \$163,330 of these transactions were for loan repayments to two friends of the Agency's Executive Director and an employee. However, we were unable to verify that the loans were ever made or that the loan proceeds were spent on the program, because the loan proceeds were not deposited into the Agency's bank account. In addition, the repayment checks were made payable to "cash" and cashed by the Agency's Executive Director, Facility Manager, a Board Member, a volunteer and his wife, as opposed to those identified as having made the loans.

We identified an additional \$3,148 in unallowable and inadequately documented costs, as well as a number of contract compliance and internal control deficiencies in the Agency's procedures and controls over disbursements and payroll.

SIU's investigation identified \$856,554 in highly questionable expenditures made by Marites management over the period January 1, 1997 through June 14, 2000. In some instances, components of this amount may overlap with the \$224,684 we initially questioned in the audit. For example, "loan repayments" identified in the audit might also be accounted for in SIU's investigative summary as "diversion of funds disguised as personal loan repayments".

We referred SIU's findings to DCFS and recommended they discontinue doing business with Marites. Since our review began, Marites contract with the County has lapsed and was not renewed. Children placed in Marites facilities were relocated, and Marites is no longer a service provider for the County. As required, these findings were also referred to the District Attorney's Office (DA) for possible prosecution. However, the DA declined to prosecute Marites owners/licensees. The Franchise Tax Board and the DA are still considering filing charges for income tax evasion. Summaries of the initial audit findings and SIU's investigation are attached.

Review of Report

Our audit findings were discussed with Marites representatives on November 10, 1999, prior to the expiration of their contract. However, we did not review our final report with the Agency because, at the date of this report, Marites was no longer in existence.

JTM:PTM:MR

Attachments

- c: David E. Janssen, Chief Administrative Officer
Steve Cooley, District Attorney
Lloyd W. Pellman, County Counsel
Public Information Office
Audit Committee Members
Commission for Children and Families
Department of Children and Family Services
Anita Bock, Director
Ed Sosa, Chief, Out Of Home Care Programs
Genevra Gilden, Chief, Quality Assurance Division
California Department of Social Services
Evelyn Hemenover, Chief, Foster Care Rates Bureau
Sharon Ferrante, Chief, Foster Care Audits Bureau

Marites Group Home
Fiscal Audit of Group Home Foster Care Contract

Schedule of Findings

Background

The Department of Children and Family Services (DCFS) contracted with Marites Group Home (Marites) to provide the basic needs and services for foster care children placed in the Agency's care. Marites was licensed to operate five group homes with a combined capacity of 30 children, and was located in the Second Supervisorial District.

Under the provisions of the contract, the County paid Marites a monthly rate for each child based on a rate classification level determined by the California Department of Social Services (CDSS). Marites received a monthly rate of \$4,423 per child during the period of our review, January 1, 1997 through December 31, 1997, a total of approximately \$1,449,900 in foster care funds from DCFS.

Applicable Regulations and Guidelines

Marites was required to operate its group homes in accordance with certain federal, State and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our audit:

- Group Home Foster Care Contract (Contract), including Exhibit F, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook).
- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular).
- California Department of Social Services Manual of Policies and Procedures (CDSS MPP).
- California Code of Regulations, Title 22 (Title 22).

Summary

Our review disclosed serious deficiencies in Marites controls over the receipt and disbursement of group home funds, including numerous questionable and related party expenditures, incomplete accounting records and lack of supporting documentation. Our findings raise questions of Marites' compliance with its contract with the County.

Questioned Costs

Marites used group home funds for questioned costs totaling \$224,684. Details of the questioned costs are discussed below.

Undocumented or Inadequately Documented Costs

We identified group home expenditures totaling \$58,206 that were not supported by adequate documentation as required by the Circular, the Contract and CDSS MPP. Listed below are the details of these expenditures.

- Expenditures totaling \$43,875 were not supported by vendor invoices or receipts. The unsupported expenditures consisted of the following:
 - \$17,445 in checks made payable to "Cash". According to the Assistant Administrator, \$7,100 represented repayments to the Facility Manager for a down payment on an Agency vehicle. However, we noted that the checks were not endorsed by the Facility Manager but by other individuals (one check was endorsed by another Agency employee and four other checks were endorsed by a "volunteer" who is the cousin of the Executive Director). The remaining \$10,345 in payments includes numerous disbursements of an unknown nature. Accordingly, as these payments were unsupported, we were not able to determine if these costs were related to goods or services that benefited the group home program.
 - \$26,430 in payments to the Executive Director, Facility Manager and an Agency volunteer to reimburse them for monthly lease payments on two group homes that were not licensed to operate until late October 1997. The payments were made between December 1996 and November 1997 from the personal bank accounts of the individuals mentioned. We also noted that the cancelled checks were made payable to the lessors of the group home properties. The Agency's "repayment" checks were made payable to "Cash" and we noted that the checks were endorsed by various other employees as well as the Executive Director and a "volunteer".

In addition, based on our review of the personal checks from the Executive Director, Facility Manager and volunteer, the actual "lease payments" only totaled \$13,848 and were actually used for start-up costs related to the opening of two new group homes. Therefore, the expenditures do not appear to be related to providing the necessary care and services to the children placed at the Agency's five other group homes, for which the group home funds were intended.

- Staff reimbursements totaling \$14,331 for various operating costs including food, office supplies, equipment, clothing, and resident activities were not supported with acceptable documentation. Receipts did not always identify the names of the

children for which clothing and fast food purchases were made. Numerous receipts were dated up to six months before and four months subsequent to the date the check was issued. All of the checks were also made payable to "Cash" and ranged from \$150 to \$1,800.

Unsupported Loans

We identified group home expenditures totaling \$163,330 that Marites management claimed were for the repayment of "business loans" the Agency received from two friends of the Executive Director and an employee. Although the Agency had formal loan agreements with these individuals, we were unable to verify that the loans were ever received by the Agency or used for group home expenditures because the loan proceeds were not deposited into the Agency's bank account. Agency management said that the loan proceeds were instead given to the Executive Director, an Agency "volunteer" and his wife. As a result, we were unable to verify that the Agency actually received the loan proceeds and spent the funds on reasonable and allowable expenditures for providing the necessary care and services to children placed at the Agency.

In addition, all of the checks identified as "loan repayments" were made payable to "Cash". A review of the cancelled checks showed that the checks were endorsed by the Agency's Executive Director, Facility Manager, a Board Member, the "volunteer" and his wife, as opposed to those identified as having made the loans.

Unallowable Costs

Marites used group home funds on unallowable costs totaling \$3,148. The unallowable costs consisted of \$2,820 in penalties and interest paid to the Internal Revenue Service for delinquent payroll taxes, and \$328 in bank fees for checks written against non-sufficient funds. According to the Circular, the Agency is not permitted to use group home funds to pay interest or fines and penalties resulting from violations of federal State and local laws.

Recommendations

Based on the seriousness of the fiscal/accounting weaknesses, significant questionable disbursements to family members and other related parties, and other apparent improprieties noted above, we recommended to DCFS that they discontinue their business relationship with Marites. Subsequently, Marites contract with the County lapsed and was not renewed. Children placed in Marites facilities were relocated, and Marites is no longer a service provider for the County of Los Angeles.

Los Angeles County Auditor-Controller
SPECIAL INVESTIGATIONS UNIT

INVESTIGATION OF MARITES GROUP HOMES

Findings

In February 2000, as a result of the findings of the initial audit of Marites Group Home (Marites), the Special Investigation Unit (SIU) opened an investigation. The audit of Marites was completed in November 1999 and covered the period from January 1, 1997 to December 31, 1997. SIU's investigation covered the period from January 1, 1997 to June 14, 2000.

The following summarizes SIU's findings.

- **1997 AND 1998 DIVERSION OF FUNDS DISGUISED AS LOANS (\$201,350)**
Marites Group Home checks, totaling \$201,350 were negotiated by Marites Executive Director, her husband, her sister and her brother-in-law. These disbursements were disguised in the group home accounting records as "loans payable" even though these individuals did not make any loans to the group home.
- **PERSONAL LOAN REPAYMENTS (\$15,175)**
Marites Executive Director and her husband used Group Home funds totaling \$15,175, to repay personal loans made to two of the Executive Director's sisters. In an attempt to hide the true nature of the payments, the majority of the checks were made payable to cash and were recorded in the group home accounting records as travel, dietary, supplies and maintenance expenses.
- **JEWELRY (\$800)**
A Marites Group Home check for \$800 was made payable to "cash" and was negotiated by C&T Diamond, a jewelry store.
- **ADDITIONAL GROUP HOME WITHDRAWALS (\$639,229)**
Marites management disbursed \$639,229 in group home funds, which could not be identified with a legitimate group home related expenditure. These funds appear to have been given to Marites' Executive Director and members of her family for their personal use. Group home accounts were not reimbursed for these disbursements.

We noted that many of the questionable disbursements detailed above appear to have been misclassified or excluded from the accounting records in order to obscure their true nature.